

AMENDED IN SENATE MARCH 25, 2014

**SENATE BILL**

**No. 1371**

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**Introduced by Senator Leno**

(Principal coauthor: Assembly Member Mullin)

**(Coauthor: Senator Hill)**

February 21, 2014

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An act to add Article 3 (commencing with Section 975) to Chapter 4.5 of Part 1 of Division 1 of the Public Utilities Code, relating to natural gas.

LEGISLATIVE COUNSEL'S DIGEST

SB 1371, as amended, Leno. Natural gas: leakage abatement.

The California Constitution establishes the Public Utilities Commission with regulatory authority over public utilities, authorizes the commission to establish its own procedures, subject to statutory limitations or directions and constitutional requirements of due process, and authorizes the commission to fix rates and establish rules for all public utilities, subject to control by the Legislature.

The Natural Gas Pipeline Safety Act of 2011, within the Public Utilities Act, designates the commission as the state authority responsible for regulating and enforcing intrastate gas pipeline transportation and pipeline facilities pursuant to federal law, including the development, submission, and administration of a state pipeline safety program certification for natural gas pipelines.

This bill would require the commission to adopt rules and procedures governing the operation, maintenance, repair, and replacement of commission-regulated gas pipeline facilities to minimize leaks as a hazard to be mitigated pursuant to the Natural Gas Pipeline Safety Act of 2011 and to eliminate uncontrolled emissions of natural gas from

commission-regulated gas pipeline facilities to the maximum extent feasible *with the goal of cutting total emission in  $\frac{1}{2}$  by January 1, 2020.* The bill would require the commission to commence a proceeding by January 15, 2015, and to adopt rules and procedures not later than December 31, 2015. *The bill would require the commission to consult with the State Air Resources Board and those other state and federal entities that the commission determines have regulatory roles of relevance to the rules and procedures under consideration.* The bill would require that the rules and procedures provide for ~~repair the~~ *elimination* of leaks in commission-regulated gas pipeline facilities within a reasonable time after discovery, but require that leaks discovered in close proximity to residential and commercial buildings ~~be repaired upon discovery so that the emission of leaking gas that can result in injury or loss of life will be substantially eliminated~~ *eliminated as soon as reasonably possible after discovery, consistent with the goal of reducing the risk of injury or loss of life.* The bill would ~~additionally~~ require that the rules and procedures establish *and require the use of* best practices for leak surveys, patrols, leak survey technology, and metrics for evaluating and comparing leaks so that operators, the commission, and the public have accurate information about the number and severity of leaks and about the quantity of gas that is emitted to the atmosphere over time. *The bill would require that the rules and procedures, to the extent feasible, provide for the establishment of a baseline systemwide leak rate, a periodic updating of systemwide leak rate quantifications, and an annual reporting structure of the measures that will be taken in the following year to reduce the systemwide leak rate to achieve the goals of the bill for each commission-regulated pipeline.* The bill would require that the commission consider *whether* the costs of compliance with the *adopted* rules and procedures are commensurate with the short- and long-term benefits resulting from reducing leaks and emissions and provide for cost recovery in rates charged to their customers by a gas corporation, consistent with the commission's existing ratemaking procedures and authority to establish just and reasonable rates.

Under existing law, a violation of the Public Utilities Act or any order, decision, rule, direction, demand, or requirement of the commission is a crime.

Because the provisions of this bill would be a part of the act and because a violation of an order or decision of the commission

implementing its requirements would be a crime, the bill would impose a state-mandated local program by creating a new crime.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1     ~~SECTION 1. The Legislature finds and declares all of the~~  
2     ~~following:~~  
3     ~~(a) The Legislature has established that safety of the natural gas~~  
4     ~~pipeline infrastructure in California is a priority for the Public~~  
5     ~~Utilities Commission and gas corporations.~~  
6     ~~(b) The incidence of natural gas leaks and their repair is~~  
7     ~~considered by the industry and regulators to be a significant~~  
8     ~~indicator of pipeline integrity and safety.~~  
9     ~~(c) The Legislature has established a policy goal to significantly~~  
10    ~~reduce emissions of greenhouse gases in California.~~  
11    ~~(d) There is a growing awareness of the potency of methane,~~  
12    ~~the primary component of natural gas, as a greenhouse gas. The~~  
13    ~~Intergovernmental Panel on Climate Change estimates that the~~  
14    ~~global warming potential of methane is 84 times that of carbon~~  
15    ~~dioxide over a 20-year time horizon.~~  
16    ~~(e) Fugitive methane volumes from pipelines in California may~~  
17    ~~exceed 35 billion cubic feet annually and may exceed 500 billion~~  
18    ~~cubic feet nationwide.~~  
19    ~~(f) Reducing these fugitive emissions by repairing pipeline leaks~~  
20    ~~promptly and effectively advances both policy goals of natural gas~~  
21    ~~pipeline safety and integrity and reducing emissions of greenhouse~~  
22    ~~gases.~~  
23    ~~(g) Reducing leaks and promoting pipeline integrity in California~~  
24    ~~provides significant employment opportunities for California~~  
25    ~~residents and for domestic fabricators of high quality pipeline~~  
26    ~~materials.~~  
27    ~~(h) Providing just and reasonable rate revenues for gas~~  
28    ~~corporations to reduce leaks and repair them promptly when~~

1 ~~discovered, including employing an adequate workforce, is in the~~  
2 ~~public interest, and promotes the interests of customers and the~~  
3 ~~public.~~

4 ~~SEC. 2.~~

5 *SECTION 1.* Article 3 (commencing with Section 975) is added  
6 to Chapter 4.5 of Part 1 of Division 1 of the Public Utilities Code,  
7 to read:

8  
9 Article 3. Methane Leakage Abatement

10  
11 975. *The Legislature finds and declares all of the following:*

12 (a) *The Legislature has established that safety of the natural*  
13 *gas pipeline infrastructure in California is a priority for the Public*  
14 *Utilities Commission and gas corporations.*

15 (b) *The incidence of natural gas leaks and their repair is*  
16 *considered by the industry and regulators to be a significant*  
17 *indicator of pipeline integrity and safety.*

18 (c) *The Legislature has established a policy goal to significantly*  
19 *reduce emissions of greenhouse gases in California.*

20 (d) *There is a growing awareness of the potency of methane,*  
21 *the primary component of natural gas, as a greenhouse gas. The*  
22 *Intergovernmental Panel on Climate Change estimates that the*  
23 *global warming potential of methane is approximately 80 times*  
24 *that of carbon dioxide over a 20-year time horizon.*

25 (e) *It is undisputed that natural gas pipelines and infrastructure*  
26 *in California leak substantial volumes of natural gas, estimated*  
27 *in 2011 to exceed 35 billion cubic feet annually.*

28 (f) *Reducing these fugitive methane emissions by promptly and*  
29 *effectively repairing or replacing the pipes and associated*  
30 *infrastructure that is responsible for these leaks advances both*  
31 *policy goals of natural gas pipeline safety and integrity and*  
32 *reducing emissions of greenhouse gases.*

33 (g) *Although there are existing federal and state rules and*  
34 *regulations that pertain to the natural gas transmission and*  
35 *distribution system and associated infrastructure, these rules and*  
36 *regulations are insufficient to prevent the climate change impacts*  
37 *from leaks of natural gas.*

38 (h) *Reducing leaks and promoting the integrity of pipelines and*  
39 *associated infrastructure in California provides significant*  
40 *employment opportunities for California residents and for domestic*

1 *fabricators of high quality pipeline materials and other equipment*  
2 *associated with finding and fixing leaks.*

3 (i) *Providing just and reasonable rate revenues for gas*  
4 *corporations to find, categorize, and eliminate leaks promptly*  
5 *when discovered, including employing an adequate workforce, is*  
6 *in the public interest, and promotes the interests of customers and*  
7 *the public.*

8 975.

9 976. (a) For purposes of this chapter, “commission-regulated  
10 gas pipeline facility” has the same meaning as defined in Section  
11 950.

12 (b) The commission shall adopt rules and procedures governing  
13 the operation, maintenance, repair, and replacement of  
14 commission-regulated gas pipeline facilities to achieve both of the  
15 following:

16 (1) Minimize leaks as a hazard to be mitigated pursuant to  
17 paragraph (1) of subdivision (d) of Section 961.

18 (2) ~~Eliminate~~ *While giving due consideration to the cost*  
19 *considerations of Section 977, eliminate uncontrolled emissions*  
20 *of natural gas from commission-regulated gas pipeline facilities*  
21 *to the maximum extent feasible with the goal of cutting total*  
22 *emission in half by January 1, 2020, in order to advance the state’s*  
23 *goals in reducing emissions of greenhouse gases pursuant to the*  
24 *California Global Warming Solutions Act of 2006 (Division 25.5*  
25 *(commencing with Section 38500) of the Health and Safety Code).*

26 (c) Not later than January 15, 2015, the commission shall  
27 commence a proceeding to adopt rules and procedures for intrastate  
28 distribution lines and intrastate transmission lines, as respectively  
29 described in paragraphs (1) and (2) of subdivision (a) of Section  
30 950, to achieve the goals of subdivision (b). *The commission shall*  
31 *consult with the State Air Resources Board and those other state*  
32 *and federal entities that the commission determines have regulatory*  
33 *roles of relevance to the rules and procedures under consideration.*  
34 The commission shall adopt rules and procedures not later than  
35 December 31, 2015.

36 (d) The rules and procedures *adopted pursuant to subdivision*  
37 *(c) shall provide accomplish all of the following:*

38 (1) *Provide for the—repair elimination of leaks in*  
39 *commission-regulated gas pipeline facilities within a reasonable*

1 time after discovery, consistent with eliminating hazards and  
2 reducing emissions to achieve the goals in subdivision (b). ~~Leaks~~

3 *(2) Provide for the elimination of any leaks discovered in close*  
4 *proximity to residential and commercial buildings shall be repaired*  
5 *upon discovery so that the emission of leaking gas that can result*  
6 *in injury or loss of life will be substantially eliminated, as soon as*  
7 *reasonably possible after discovery, consistent with the goal of*  
8 *reducing the risk of injury or loss of life.*

9 ~~(e) The rules and procedures shall establish~~

10 *(3) Establish and require the use of best practices for leak*  
11 *surveys, patrols, leak survey technology, and metrics for evaluating*  
12 *and comparing leaks so that operators, the commission, and the*  
13 *public have accurate information about the number and severity*  
14 *of leaks and about the quantity of natural gas that is emitted to the*  
15 *atmosphere over time. Best practices shall include evaluation of*  
16 *the quality of materials and equipment from various sources,*  
17 *including foreign and domestic third-party suppliers.*

18 *(4) To the extent feasible, provide for each*  
19 *commission-regulated gas pipeline facility, the establishment of*  
20 *a baseline systemwide leak rate, a periodic updating of systemwide*  
21 *leak rate quantifications, and an annual reporting structure of the*  
22 *measures that will be taken in the following year to reduce the*  
23 *systemwide leak rate to achieve the goals of subdivision (b).*

24 ~~(f)~~

25 *(e) The rules and procedures, including best practices and repair*  
26 *standards, shall be incorporated into the safety plans required by*  
27 *Section 961.*

28 ~~(g)~~

29 *(f) Consistent with subdivision (e) of Section 961, the*  
30 *commission shall facilitate robust ongoing participation of the*  
31 *workforce of gas corporations in all aspects of the proceeding.*

32 ~~976.~~

33 ~~977.~~ As an element of the proceeding required by Section ~~975,~~  
34 ~~976,~~ the commission shall consider *whether* the costs of compliance  
35 with the *adopted* rules and procedures *are commensurate with the*  
36 *short- and long-term benefits resulting from reducing leaks and*  
37 *emissions* and shall provide for cost recovery in rates charged to  
38 their customers by a gas corporation, consistent with the  
39 commission's existing ratemaking procedures and authority to

1 establish just and reasonable rates. Cost considerations shall  
2 include, *but are not limited to*, all of the following:

3 (a) Providing an adequate workforce to achieve the objectives  
4 of reducing hazards and emissions from leaks, including ~~prompt~~  
5 ~~leak repair and~~ leak elimination.

6 (b) Directing the revenues from any allowance for lost or  
7 unaccounted for natural gas to ~~leak repair and~~ elimination.

8 (c) Providing guidance for treatment of expenditures as being  
9 either an item of expense or a capital investment.

10 (d) *The impact on affordability of gas service for vulnerable*  
11 *customers as a result of the incremental costs of compliance with*  
12 *the adopted rules and procedures.*

13 ~~SEC. 3.~~

14 *SEC. 2.* No reimbursement is required by this act pursuant to  
15 Section 6 of Article XIII B of the California Constitution because  
16 the only costs that may be incurred by a local agency or school  
17 district will be incurred because this act creates a new crime or  
18 infraction, eliminates a crime or infraction, or changes the penalty  
19 for a crime or infraction, within the meaning of Section 17556 of  
20 the Government Code, or changes the definition of a crime within  
21 the meaning of Section 6 of Article XIII B of the California  
22 Constitution.